

WATER/ICRJ/FLC/KKL/RHG

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION  
AUDIT AND COMPLIANCE BRANCH

RESOLUTION W-4307  
OCTOBER 25, 2001

**R E S O L U T I O N**

Resolution W-4307. SEQUOIA CREST WATER COMPANY (SEQUOIA). REQUEST TO BORROW FUNDS UNDER THE SAFE DRINKING WATER STATE REVOLVING FUND (SDWSRF), TO ADD A SURCHARGE TO WATER RATES TO REPAY THE PRINCIPAL AND INTEREST, AND TO PROVIDE A SINKING FUND RESERVE EQUAL TO ONE YEAR'S DEBT SERVICE.

By Draft Advice Letter Filed on June 26, 2001.

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**SUMMARY**

This Resolution authorizes Sequoia, a Class D water utility, to enter into a loan agreement with the Department of Water Resources (DWR) to borrow a total of \$159,108 under the SDWSRF for the construction of a new well and pumping facility, including a 150,000 gallon steel storage tank, controls, emergency chlorinator and enclosure; to encumber its assets in connection with the loan; and to place in effect a surcharge on existing water rates for the purpose of amortizing the \$159,108 loan and accumulating a sinking fund reserve equal to one year's debt service.

The estimated annual revenue impact of the \$159,108 loan is \$10,986 for years 1 to 10 and \$9,988 thereafter until year 20.

A notice of the proposed rate surcharge was mailed to each customer on August 10, 2001. Twenty-four letters from Sequoia's customers were received questioning the basis of the rate increase and the surcharge.

## **BACKGROUND**

Sequoia operates as a water utility subject to the jurisdiction of this Commission. Sequoia is privately owned by Sequoia Crest, Inc. and provides water to the mountain community of Sequoia Crest (the unincorporated area known as Tract No. 308 located approximately 24 miles northeast of the community of Springville, Tulare County).

Sequoia Crest currently has a population of 10 permanent and 80 part-time households. The permanent resident's total 21 people and the part-time residents fluctuate between 100 to 200 on weekends and major holidays. Sequoia Crest is primarily a "second residence" community. There is no commercial or industrial development within the community. It is currently unsewered and served by individual on-site septic tanks and leach field systems. Pursuant to its Year 2000 Annual Report, there are 94 flat rate service connections.

Roberts Engineering report dated March, 1999 and revised April, 1999 attached to the filing disclosed the following deficiencies in Sequoia's water system:

1. The system presently fails bacteriological testing on many occasions and the owners have been put on notice by the Tulare County Environmental Health Department to correct the problem.
2. The system has historically been consuming too much water.
3. The operator is overburdened with the repair of leaks.
4. There are leaks in the distribution system and on the private properties being served.

Pursuant to its Year 2000 Annual Report, Sequoia reported that it generated total operating revenues of \$41,486 and net income of \$5,325. The company's balance is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$219,280
Current and Accrued Assets	20,000
Deferred Charges	<u>0</u>
Total Assets	<u>\$239,280</u>
<u>Liabilities &amp; Equity</u>	
Capital and Retained Earnings	\$ 39,680
Long-Term Debt	0
Current and Accrued Liabilities	30,000
Contributions in Aid of Construction	<u>169,600</u>
Total Liabilities & Equity	<u>\$239,280</u>

## **NOTICE AND PROTESTS**

By letter dated August 10, 2001, Sequoia notified its customers of its proposed construction project, the SDWSRF loan, and the proposed surcharge to repay the loan. The notice showed the current yearly residential flat rate of \$439 and the proposed surcharge for years 1 to 10 and years 11 to 20. Together, the yearly bill for a residential flat rate customer would increase from \$439 to \$553.48 or 26.1% for the first 10 years and to \$543.04 or 23.7% for the next 10 years.

The Water Division received twenty-four form letters questioning the basis of the rate increase and the surcharge. The Water Division has replied to the letters individually.

The customer letters claim that the current yearly residential flat rate of \$439 will be reduced to \$239 by the end of year 2001 and therefore the proposed yearly surcharge per customer of \$114.48 (years 1 to 10) and \$104.04 (years 11 to 20) should produce only a total cash outlay of \$343.48 (years 1 to 10) and \$343.04, respectively.

A review of Sequoia's Tariff Schedule No. 2R Residential Flat Rate Service indicates that the current yearly rate of \$439 authorized by Resolution (Res.)

W-4017 dated December 20, 1996 is a permanent rate increase to recover investment in utility plant. There is no time frame of 5 years after which the rate will revert back to the superseded rate of \$267 (erroneously stated as \$239 in the customers' letters).

The surcharge rate is independent of the current yearly residential flat rate of \$439. The plant financed by surcharge is permanently excluded from rate base for ratemaking purposes. However, to present the effect of the proposed surcharge in customer yearly total cash outlay, it is necessary to use \$439 as the denominator to arrive at the percent increase.

There were no concerns or disputes about either the proposed water system improvement or the proposed state-funded loan. In view thereof, we find no substantive evidence that should dissuade us from giving favorable consideration to Sequoia's filing.

This is an uncontested matter<sup>1</sup> in which the decision grants the relief requested. Accordingly, pursuant to Public Utilities (PU) Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

## **DISCUSSION**

Sequoia's water distribution system consists of various types of aging and failing pipelines, a storage tank that allows contamination into the system, and a lower well, which is subject to surface contamination.

Sequoia's proposed improvements to its water system consist of:

1. Drilling and putting into service a new water well. This will include, if necessary, drilling test wells in order to find an adequate source of water. A new pump will be installed at the well site, plus electrical service and a water line will be extended to the new well site.
2. Constructing a new 150,000 gallon steel tank, including all needed appurtenances.
3. Installing a pump control system, including tank depth sensors.
4. Installing an emergency chlorination system.

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<sup>1</sup> No formal protests were received.

Sequoia's estimated construction costs attached to the filing are as follows:

<u>Description</u>	<u>Total</u>
Water Supply – Test Wells	\$ 7,500
Miscellaneous	1,000
Contingencies	17,325
Services – Engineering	25,283
Pump & Purifier Equipment – Well	40,500
Other Equipment – Steel Tank	<u>67,500</u>
Total	<u>\$159,108</u>

By letter dated October 4, 2000 to the Department of Water Resources (DWR), The Department of Health Services (DHS) approved the final plans and specifications of Sequoia's project. DHS also verified, among others, that Sequoia has complied with the technical conditions set forth in the Notice of Application Acceptance, and with all applicable provisions of the California Environmental Quality Act and the National Environmental Policy Act.

Sequoia now requests authority to enter into a loan agreement with DWR to borrow \$159,108 under the SDWSRF for a period of 20 years at 2.32% interest.

### **PROPOSED SURCHARGE RATE**

Sequoia's present charges for water service were authorized by Res. W-4017 effective February 10, 1997.

The proposed loan from DWR will provide for a 20-year repayment schedule with semiannual payments of principal, interest and a 10% reserve (first 10 years), at an interest rate of 2.32% per annum, and will be secured by the utility's assets in accordance with a loan contract.

The annual requirements for the \$159,108 SDWSRF loan are approximately \$10,986 for years 1 to 10 and \$9,988 thereafter until year 20. The amount of the surcharge to repay principal, interest, and the necessary reserve on the loan, will be in direct proportion to the capacity of each customer's meter or service

connection. The proposed surcharge rate schedule follows:

General Metered Service

<u>Size of Meter</u>	<u>Present Rate Per Meter Per Month</u>	<u>Proposed Surcharge Per Month<sup>2</sup></u>	<u>Proposed Surcharge Per Month<sup>3</sup></u>
5/8 x 3/4" meter	\$ 23.80	\$ 6.36	\$ 5.78
3/4" meter	35.75	9.54	8.67
1" meter	59.55	15.89	14.45
1-1/2 " meter	119.15	31.79	28.90
2" meter	190.60	50.86	46.24

Residential Flat Rate Service

	<u>Per Service Connection Per Year</u>	<u>Proposed Surcharge Per Year<sup>4</sup></u>	<u>Proposed Surcharge Per Year<sup>5</sup></u>
For a single residential unit including premises	\$439.00	\$114.48	\$104.04

The yearly bill for a residential flat rate customer would increase from \$439.00 to \$553.48 or 26.1% for the first 10 years. Thereafter, the surcharge is approximately \$104.04 per year and the increase would be from \$439.00 to \$543.04 or 23.7%.

The Commission has in the past authorized a service fee for new service to undeveloped lots and recommends that Sequoia be granted authority to impose a service fee for future customers who will benefit from the expenditures being made from the proceeds of the SDWSRF loan. The amount of the service fee would be the accumulated total of the SDWSRF loan rate surcharge from its inception to the time of service connection, subject to a maximum of \$2,000. The monthly surcharge would apply thereafter.

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<sup>2</sup> Years one to ten.

<sup>3</sup> Years eleven to twenty

<sup>4</sup> Years one to ten

<sup>5</sup> Years eleven to twenty

The amount of revenues from the proposed surcharge will exceed the loan repayment requirement by approximately 10%. In accordance with DWR requirements, this over-collection will be deposited with a fiscal agent to accumulate a reserve of two semiannual payments over a 10-year period. Earnings of the reserve fund, net of charges for the fiscal agent's services, will be added to the fund. Net earnings of the reserve fund, together with surcharge amounts collected from customers, will be used to meet the semiannual loan payment.

Sequoia is authorized in this Resolution to borrow the total principal sum of \$159,108; to issue a long-term promissory note in connection with said borrowing upon terms and conditions contemplated in the filing, and to institute a surcharge on customers' bills to repay the loan with the following conditions:

1. The SDWSRF loan repayment surcharge should be separately identified on customers' bills. The utility plant financed through the surcharge should be permanently excluded from rate base for ratemaking purposes and the depreciation on this plant should be recorded in memorandum accounts for income tax purposes only.
2. Sequoia should deposit all rate surcharges collected with a fiscal agent approved by DWR. Such deposits should be made within 30 days after the surcharges are collected from customers.
3. Sequoia should establish a specific bank account to be debited with revenue collected through the surcharge and the accrued interest on the revenue. The bank account should be charged with payments of principal and interest on the loan. The surcharge should be adjusted periodically to reflect changes in the number of connections and resulting overages and shortages in the bank account. Such changes in future rates should be accomplished by normal advice letter procedures.

4. The service fee would be chargeable to customers requesting future services to undeveloped lots and would be the pro-rata accumulated total of the monthly surcharge as applied to the property being furnished water service from the effective date of the surcharge to the date of connection. The maximum service fee would be \$2,000. The service fee would be due and payable upon connection of water service to the property. Thereafter the customer would pay the applicable tariff rates plus the monthly surcharge.
5. On or before July 31, 2002, and yearly thereafter, for as long as the surcharge is imposed, Sequoia should send a comparative report to the Water Division stating the changes in the number of connections by type of customer and by size of connection, the amount of surcharge and service fee revenues collected, the amount of SDWSRF repayments made, the outstanding balance of the loan, and the overages and shortages in the utility's balancing account. Sequoia should also indicate in the report if any advice letter is forthcoming to reflect changes in the rate surcharges.

Sequoia's proposed project is for the public good. It will also enable Sequoia to comply with the requirements set forth by DHS. Because long-term borrowings from DWR represent a much lower cost of capital than either equity or other forms of debt, it is beneficial to both utility and customers.

It is appropriate to emphasize that the surcharge and service fee thus authorized will cover only the cost of the loan incurred to finance Sequoia's improvement and addition to plant. It will not preclude any future rate increase request to cover rising costs of repair, materials, wages, property taxes, power bills, or other operating expenses that may be incurred in connection with operating the new facilities.

## **FINDINGS**

1. Sequoia's proposed surcharge would generate approximately \$10,986 for the first 10 years to repay the principal and interest and the debt reserve on the loan.
2. The proposed rate surcharge will increase the water rates by \$9.54 per month for 100% of Sequoia's customers.



3. There are no formal protests received.

## **CONCLUSIONS**

1. The proposed borrowing is for proper purposes and the money, property, or labor to be procured or paid for by the issue of the loan authorized by this Resolution is reasonably required for the purposes specified, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.
2. The rate surcharge, which is established to repay the SDWSRF loan, should last for the term of the loan. Surcharge revenues would not be commingled with other utility charges.
3. Undeveloped lots will benefit from the expenditures being made from the proceeds of the SDWSRF loan. The benefits include potentially increased property values and the availability of water furnished by a public utility, which meets health standards.
4. It is reasonable to establish a service fee for new connections pertaining to vacant or undeveloped lots since these lots will benefit from these improvements.
5. A service connection fee of up to \$2,000 payable upon connection by customers requesting future services to undeveloped lots is reasonable.
6. The increases in rates and charges authorized by this Resolution are justified and are reasonable.
7. The utility plant financed by this SDWSRF loan should be permanently excluded from rate base for ratemaking purposes.
8. The establishment of a separate bank account by Sequoia is required to ensure adequate accountability for deposits and disbursements of SDWSRF loan construction funds advanced by DWR to the utility.

9. Special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility owners. Sequoia should establish a bank account to be debited with revenues collected through the surcharge and accrued interest on the revenues. The bank account would be reduced by payments of principal and interest on the loan. The rate surcharge should be adjusted periodically to reflect changes in the number of connections and resulting overages and shortages in the bank account.
10. Sequoia should review annually the rate surcharge and adjust as necessary, by the advice letter procedure, the rate surcharge to reflect changes resulting in overages and shortages in the bank account.
11. Sequoia should pay the fee determined in accordance with Public Utilities Code § 1904(b).

**THEREFORE, IT IS ORDERED that:**

1. On or after the effective date of this Resolution, Sequoia Crest Water Company is authorized to borrow a total of \$159,108 from the State of California under the Safe Drinking Water State Revolving Fund (SDWSRF) for the purposes specified in the draft Advice Letter.
2. Sequoia Crest Water Company may execute and deliver the loan contract with the California Department of Water Resources, and encumber its assets in connection with the loan contemplated by the draft Advice Letter and exhibits submitted to the Commission in connection with the loan.
3. Sequoia Crest Water Company is authorized to file in accordance with General Order No. 96-A, and make effective on five days' notice, but not earlier than the date of execution of the loan contract with the Department of Water Resources, an advice letter which implements the rate surcharges attached to this order as Appendices A, B and C.
4. Upon execution of the loan authorized herein, Sequoia Crest Water Company shall record all billed surcharge and the accrued interest on the revenues in its SDWSRF bank account. The bank account shall be reduced by payment of principal and interest. A separate statement pertaining to the surcharge shall appear on each customer's water bill.

5. As a condition of the rate increase granted herein, Sequoia Crest Water Company shall be responsible for refunding or applying on behalf of the customers any surplus accrued in the bank account when ordered by the Commission.
6. The plant financed in this Resolution shall be permanently excluded from rate base for ratemaking purposes.
7. Sequoia Crest Water Company shall file with the Water Division a copy of the promissory note(s) within 15 days after execution.
8. Sequoia Crest Water Company shall deposit all rate surcharges collected with a fiscal agent approved by the Department of Water Resources. Such deposits shall be made within 30 days after the surcharges are collected from customers.
9. On or before July 31, 2002, and yearly thereafter, for as long as the surcharge is imposed, Sequoia Crest Water Company shall send a comparative report to the Water Division stating the changes in the number of connections by type of customer and by size of connection, the amount of surcharge collected, the amount of repayments made, the outstanding balance of the loan, and the overages and shortages in the utility's bank account. Sequoia Crest Water Company shall also indicate in the report if an advice letter will be forthcoming to reflect changes in the rate surcharges.
10. The authority granted by this order shall become effective when Sequoia Crest Water Company pays \$318 as required by Public Utilities Code § 1904(b).

11. The Advice Letter and tariff sheets shall be marked to show that they were authorized by Resolution W-4307.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 25, 2001; the following Commissioners voting favorably thereon:

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WESLEY M. FRANKLIN  
Executive Director

## APPENDIX A

### Schedule No. 1

#### GENERAL METERED SERVICE SURCHARGE

##### APPLICABILITY

Applicable to all metered service.

##### TERRITORY

The unincorporated area known as Tract No. 308, Sequoia Crest Subdivision, and vicinity, located approximately 24 miles northeast of the community of Springville, Tulare County.

##### RATES

		Per Meter <u>Per Month</u>		
Quantity Rate:				
All water, per 100 cu. ft . . . .		\$ 1.81		
Service Charge:				
<u>Size of Meter</u>		Years 1 to 10 Surcharge <u>Per Month</u>	Years 11 to 20 Surcharge <u>Per Month</u>	(N)
For 5/8 x ¾" meter . . . . .	\$ 23.80	\$ 6.36	\$ 5.78	
For ¾" meter . . . . .	35.75	9.54	8.67	
For 1" meter . . . . .	59.55	15.89	14.45	
For 1 ½" meter . . . . .	119.15	31.79	28.90	
For 2" meter . . . . .	190.60	50.86	46.24	(N)

The service charge is a readiness-to-serve charge, which is applicable to all metered service and to which is to be added to the monthly charge computed at the Quantity Rate.

##### SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. The surcharge is in addition to the water bill. The surcharge is specifically for the (N) repayment of the Safe Drinking Water State Revolving Fund loan authorized by Resolution No. W-4307. |
3. The surcharge rates are subject to periodic adjustment. (N)

## APPENDIX B

### Schedule No. 2R

#### RESIDENTIAL FLAT RATE SERVICE

##### APPLICABILITY

Applicable to all flat rate water service.

##### TERRITORY

The unincorporated area known as Tract No. 308, Sequoia Crest Subdivision, and vicinity, located approximately 24 miles northeast of the community of Springville, Tulare County.

##### RATES

	Per Service Connection <u>Per Year</u>	Years 1 to 10 Surcharge <u>Per Year</u>	Years 11 to 20 Surcharge <u>Per Year</u>	(N)     
For a single residential Unit including premises . . .	\$439.00	\$114.48	\$104.04	(N)

##### SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one-inch in diameter.
2. The flat rate charge applies to service during the 12-month period commencing January 1 and is payable in advance.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
4. The surcharge is in addition to the water bill. The surcharge is specifically for the repayment of the Safe Drinking Water State Revolving Fund loan authorized by Resolution No. W-4307. (N)  
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5. The surcharge rates are subject to periodic adjustment. (N)

## APPENDIX C

### Schedule No. 3

#### SAFE DRINKING WATER STATE REVOLVING FUND LOAN UNDEVELOPED LOT CHARGE

##### APPLICABILITY

Applicable to undeveloped lots within the service territory of Sequoia Crest Water Company.

##### RATES

A service charge to provide for reduction of the Safe Drinking Water State Revolving Fund loan surcharge is chargeable to customers requesting future service to undeveloped lots.

The service charge shall be the accumulated total of the surcharges provided for in Schedule No. 1 or Schedule No. 2-R, as applied to the property being furnished water service from the effective date of this advice letter to the date of connection. The maximum service charge shall be \$2,000. The service charge shall be due and payable upon connection of water service to the lot. The surcharge authorized by the Commission, as contained in Schedule No. 1 or Schedule No. 2-R will apply thereafter.